

RECORDER REPORT

Country averted ratings downgrade: SBP chief

KARACHI: State Bank of Pakistan (SBP) Governor Dr Reza Baqir Friday said that Pakistan's strategy was very successful in the recent meeting of Asia Pacific Group (APG) of Financial Action Task Force (FATF) as the country avoided any downgrade in individual ratings in Mutual Evaluation Report.

Addressing business community at the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) here, Governor SBP talked about the recent meeting of APG held in Canberra (Australia) and informed FPCCI that some of members were trying to downgrade Pakistan's individual rating; however, Pakistan has successfully averted such efforts and maintained the individual rating in APG's Mutual Evaluation Report.

"The recommendations of recent meeting and progress and action plan made by Pakistan will be evaluated in the next meeting to be held in October and I m confident that Pakistan will remain successful as the SBP and present government are aggressively working to address the issues," he added.

He said Pakistan's economy is moving in the right direction and as per the SBP projections economy will grow some 3.5 percent during this fiscal year. Business community should have confidence and make decisions on the basis of evidence and not on rumors.

"The government and the SBP are fully supporting the private sector by providing a level playing field as we believe that economy cannot grow without joint efforts of public and private sector," he added.

Governor SBP said that despite higher current account deficit, the exchange rate was artificially maintained, of which the country's foreign exchange reserves were drained that forced Pakistan to go for another IMF programme. The external account deficit, which was zero in 2014, surged to highest level of \$2 billion per month, he added.

"It was also observed that fixed exchange rate was not in favor of Pakistan and accordingly exchange rate was gradually adjusted, after which the current account deficit is on decline and reserves are gradually strengthening. In order to keep the exchange rate stable, previously the SBP was required to sell the dollars," he maintained.

Baqir said that interest rate or monetary policy is a tool that central banks, with market based exchange rate, uses to contain inflation. Tight monetary policy is not a unique stance of the SBP, it's a worldwide tool to curb the increasing inflationary pressure on the economy, he maintained.

He said that Pakistan's real interest rate, which is the difference of prevailing interest rate and projected inflation, is still very low as projected inflation is some 13 percent for the current fiscal year, while the interest rate stood at 13.25 percent. Interest rate would remain high until and unless projected inflation comes down, he added.

There are some concerns that higher interest rate will hurt the private investment. However, the statistics showed that despite sharp fluctuation in policy rate, private investment in terms of GDP is about 9-10 percent during the last 10 years. There are some other reasons including structural issues and ease of doing business, etc, that are hampering the private investment, Baqir said.

He said that SBP is fully supporting business community by providing soft loans and special SMEs financing schemes have been launched. Exports number in term of volumes and values are increasing after exchange rate adjustment, he maintained.

"We were facing two challenges, ie, external deficit and fiscal deficit. With concrete measures and exchange rate adjustment current account deficit is declining and now the efforts are being made for fiscal stability," he said and added that there is need to increase the tax net to reduce fiscal deficit. People should recognize their responsibility for tax payment, he said.

Governor SBP urged the business community to prefer banking transactions instead of cash for business purposes as Pakistan's deposit to GDP ratio is much lower than other countries.

"The SBP's economic outlook is positive as hard decisions have been taken and some stability has already been witnessed in recent months. If we continue on these lines our future is bright, however, stability and continuity is required in policies to achieve a long-term economic growth," he added.

Baqir said that SBP is fully prepared to face the sudden fiscal challenges such as hike in oil prices in international market and any happening on military front or Kashmir issue. The IMF has projected 2.4 percent GDP growth for this fiscal year as against SBP's projection of 3.5 percent.

Daroo Khan Achakzai, President, FPCCI, S M Muneer former President FPCCI & Former CEO TDAP, Dr Mirza Ikhtiyar Baig, Senior Vice President FPCCI, Arshad Jamal, Muslim Muhammedi Vice Presidents FPCCI, Hanif Gohar, Abdul Sami Khan, Zubair Tufail, Khalid Tawab, Rafique Suleman and others were also present.